



# IFRS AT A GLANCE

## IFRS 11 *Joint Arrangements*



# IFRS 11 Joint Arrangements

## SCOPE

IFRS 11 applies to all parties subject to a joint arrangement. A joint arrangement (JA):

- ▶ Binds the parties by way of contractual agreement (does not have to be in writing, instead it is based on the substance of the dealings between the parties)
- ▶ Gives two (or more) parties joint control.

Joint arrangements are classified either as:

- ▶ Joint operation - parties have rights to the assets, and obligations for the liabilities of the JA
- ▶ Joint venture - parties have rights to only the net assets of the JA.

## JOINT CONTROL (JOINT DE-FACTO CONTROL, SUBSTANTIVE RIGHTS, PROTECTIVE RIGHTS)

### *Joint control*

Joint control is based on the same control principle as IFRS 10 Consolidation (i.e. Power, exposure to variable returns, ability to use power to affect variable returns).

Joint control is the contractually agreed sharing of control in relation to decisions regarding the relevant activities and requires the unanimous consent of the controlling parties (refer to IFRS 10 for definition of relevant activities). This can be explicit or implicit:

- ▶ E.g. joint control exists if two parties hold 50% voting rights, and a 51% majority is required to make decisions regarding relevant activities
- ▶ E.g. joint control does not exist if, after considering all contractual agreements, the minimum required majority of voting rights can be achieved by more than one combination of parties agreeing together.

### *Joint de-facto control*

Joint de-facto control is based on the same de-facto control principle as IFRS 10. Joint de-facto control only exists if the parties are contractually bound to vote together in relation to decisions on relevant activities. In assessing joint de-facto control, an entity may consider previous voting attendance, but not previous voting results (i.e. whether other parties historically voted the same way as the entity).

### *Substantive and protective rights*

The assessment of substantive and protective rights is based on the same principles as IFRS 10:

- ▶ Substantive rights (rights that can be practically exercised) are considered in assessing power
- ▶ Protective rights (rights designed to protect the interests of the holder) are not considered in assessing power.

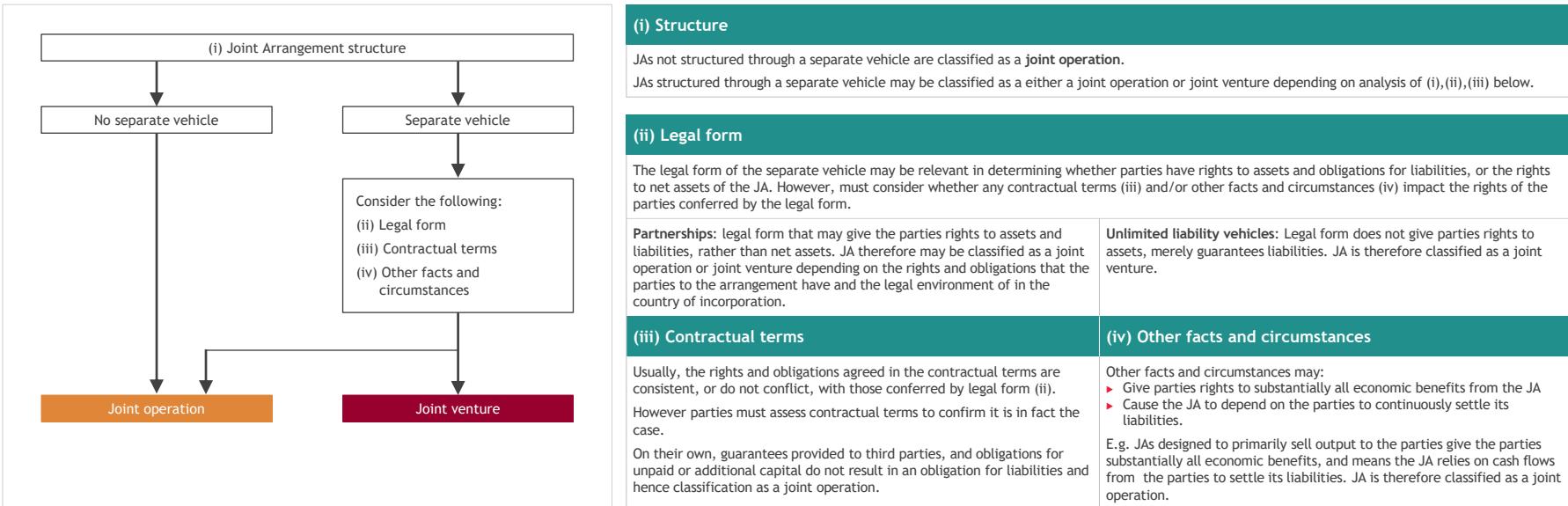
Arrangements are not within the scope of IFRS 11 if joint control (or joint de-facto control) does not exist (i.e. no contractual unanimous consent required for decisions that relate to the relevant activities of the arrangement).



# IFRS 11 Joint Arrangements

## CLASSIFICATION OF JOINT ARRANGEMENTS (AS EITHER JOINT OPERATIONS OR JOINT VENTURES)

Classification depends upon the assessment of the rights and obligations of the parties, and considers the JA's: (i) Structure; (ii) Legal form; (iii) Contractual terms; (iv) Other facts and circumstances (refer to boxes below).





# IFRS 11 Joint Arrangements

## RECOGNITION AND MEASUREMENT: JOINT CONTROLLING PARTIES

### Joint operations

#### Consolidated/Individual Financial Statements

A joint operator recognises in relation to interest in a joint operation:

- a) Its assets, including its share of any assets held jointly
- b) Its liabilities, including its share of any liabilities incurred jointly
- c) Its revenue from the sale of its share of the output arising from the joint operation
- d) Its expenses, including its share of any expenses incurred jointly.

The above are accounted for in accordance with the applicable IFRSs.

#### Separate Financial Statements

Same treatment as for consolidated/individual financial statements detailed above.

### Joint ventures

#### Consolidated/Individual Financial Statements

Apply the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures (unless the entity is exempted from applying the equity method)<sup>1</sup>.

#### Separate Financial Statements

Recognise interest either:

- ▶ At cost
- ▶ As a financial asset in accordance with IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement
- ▶ Using the equity method as described in IAS 28 Investments in Associates.





# IFRS 11 Joint Arrangements

## RECOGNITION AND MEASUREMENT: ENTITIES THAT PARTICIPATE, BUT DO NOT HAVE JOINT CONTROL ('NON-JOINT CONTROLLING PARTIES')

In some instances, there may be other parties who are investees in a joint arrangement but do not themselves have joint control of the joint arrangement.

### Joint operations

(non-joint controlling party has contractual rights and obligations to assets, liabilities, expenses, and revenues)

Account for its contractual share of assets, liabilities, expenses, and revenues in both its

- ▶ Consolidated/Individual financial statements
- ▶ Separate financial statements.

### Joint ventures

Identical to joint operations where the non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses and revenues (i.e. assess for significant influence, and then account for accordingly).

### Joint operations

(non-joint controlling party does not have contractual rights and obligations to assets, liabilities, expenses, and revenues)

#### *Consolidated/Individual Financial Statements*

Assess for significant influence in accordance with IAS 28 (i.e. as an associate):

- ▶ If present: apply the equity method<sup>1</sup> in accordance with IAS 28 (unless the entity is exempted from applying the equity method)<sup>2</sup>.
- ▶ If not present: financial asset (IAS 39/IFRS 9).

#### *Separate Financial Statements*

Assess for significant influence in accordance with IAS 28:

- ▶ If present: either (i) at cost (ii) financial asset (IAS 39/IFRS 9) (iii) equity method (IAS 28)
- ▶ If not present: financial asset (IAS 39/IFRS 9).

### <sup>1</sup> Equity method exemption

Venture capital organisation, mutual funds, unit trusts, investment-linked insurance funds, and similar entities may elect to measure associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* rather than apply the equity method.

### DISCLOSURE

Refer to IFRS 12 *Disclosure of Interests in Other Entities*.

## JOINT OPERATION AND BUSINESS COMBINATION

- ▶ An entity is required to apply all of the principles of IFRS 3 *Business Combinations* when it acquires an interest in a joint operation that constitutes a business as defined by IFRS 3.
- ▶ A joint operator might increase its interest in a joint operation in which the activity of the joint operation constitutes a business, as defined in IFRS 3, by acquiring an additional interest in the joint operation. In such cases, previously held interests in the joint operation are not remeasured if the joint operator retains joint control.

# Contact

For further information about how BDO can assist you and your organisation, please get in touch with one of our key contacts listed below.

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